

BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, DC 20554

APR 12 1996

In the Matter of )

Federal-State Joint Board )  
on Universal Service )

CC Docket No. 96-45

To: The Federal-State  
Joint Board

**COMMENTS OF  
LCI INTERNATIONAL TELECOM CORP.**

LCI International Telecom Corp. ("LCI"), by its attorneys, respectfully submits these comments regarding the Federal Communication Commission's ("FCC" or the "Commission") universal service policies.<sup>1</sup> LCI is currently the nation's sixth largest interexchange carrier ("IXC"). LCI also is a competitive local exchange carrier ("CLEC"), having received approval for the resale of local services in several states, including California, Illinois, New York and Texas. As both an IXC and a CLEC, LCI is committed to the goal of ensuring that all Americans have the opportunity to obtain quality telecommunications services at rates that are just, reasonable, and affordable. For the reasons explained below, LCI believes that federal and state universal service policies must be based on clearly defined goals for which explicit and competitively neutral mechanisms to collect and distribute the requisite funding must be developed.

<sup>1</sup> See Federal-State Joint Board on Universal Service, *Notice of Proposed Rulemaking*, FCC 96-93 (rel. Mar. 8, 1996)(hereinafter "*Notice*").

**I. UNIVERSAL SERVICE SUPPORT MUST BE CLEARLY DEFINED,  
NARROWLY TARGETED AND COMPETITIVELY NEUTRAL**

The Telecommunications Act of 1996 ("1996 Act") requires the Commission to establish a framework for local competition and in so doing mandates a restructuring and rethinking of universal service and its accompanying support mechanisms.<sup>2</sup> In furtherance of the emerging multiple local service provider environment, the 1996 Act renders the existing system of universal service subsidies for monopoly service providers obsolete. To support universal service goals in this new era of local competition, the Commission first must determine which services are worthy and which areas and individuals are in need of support. Then, it must establish a means of providing such support in a way that does not distort competition or favor incumbent local exchange carriers ("ILECs") in the telecommunications marketplace.

**A. Universal Service Should Be Defined to Include Only Those Services  
Which Are Necessary to Provide Residential Users with Functional Use of  
the PSTN and Access to Advanced Services**

Pursuant to the Section 254 of the Act, the Commission must define those services which are to be supported by federal universal service support mechanisms. In so doing, the Commission must first consider the extent to which the specific service is: (1) "essential to education, public health or public safety;" (2) "subscribed to by a substantial majority of residential customers;" (3) "deployed in public telecommunications networks;" and (4)

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<sup>2</sup> Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) (*to be codified at* 47 U.S.C. §§ 151 *et seq.*) new 47 U.S.C. § 254 (for clarity, provisions of the 1996 Act will be cited using the sections at which they will be codified, preceded by the word "new").

"consistent with the public interest, convenience and necessity." New 47 U.S.C.

§ 254(c)(1). In setting forth these guidelines, Congress clearly intended that universal service support be extended only to those core services that have become so ubiquitous that they are considered "standard" elements of basic, residential telephone service.

Accordingly, the package of core services to be supported should include only those enumerated by the Commission in the *Notice*: (1) voice-grade access to the public switched telephone network ("PSTN"); (2) touch-tone; (3) single party service; (4) access to emergency services; and (5) access to operator services. *Notice* at ¶ 16. These core services represent the standard group of services necessary to provide all Americans with the ability to: (1) place and receive POTS calls; (2) utilize emergency and operator services; (3) access toll services; and (4) support additional, advanced services available from carriers, businesses and information providers (including CLASS functions, Internet access, etc.). In short, these are the core services necessary to provide residential subscribers with functional use of the PSTN and access to advanced services.

Thus, LCI urges the Commission to reject any suggestions to expand the definition of universal service beyond this group of core services. Some parties may assert that business services or advanced services themselves should be included in the definition of universal service. However, universal service support has always been limited to baseline, residential services and the 1996 Act provides no indication that Congress intended otherwise. In fact, contrary to the suggestion that business services should be included in universal service, the 1996 Act requires consideration of whether specific services are used by "*residential* customers," and makes no mention of those that might be used by businesses. New 47 U.S.C. § 254(c)(1)(B) (emphasis added). Furthermore, the 1996 Act only mandates *access*

to advanced services--Congress did not intend that the services themselves should be subsidized. *Id.* at § 254(b)(2).

**B. Support for Rural/High Cost Areas Should Be Determined Separately from Support for Low-Income Customers**

The 1996 Act affirms and endorses the two traditional and narrowly targeted policy goals of universal service: (1) extending the PSTN to rural and high cost service areas; and (2) making service affordable for low-income customers. *Id.* at § 254(b)(3). To ensure that rural and high cost areas are offered comparable services at comparable rates, incentives, in the form of universal service support, must be provided to carriers otherwise unwilling or unable to serve those areas. By contrast, support for low-income customers targets individual subscribers rather than service areas, and therefore, requires that support be directed toward individuals rather than carriers. Thus, although these policy goals may be complementary, they must be treated separately as each can be achieved only through the implementation of distinctly targeted support mechanisms.

**C. Universal Service Support Mechanisms Must Be Explicit**

The 1996 Act requires the development of "specific, predictable and sufficient" support mechanisms for universal service. *Id.* at § 254(b)(5). This, according to Congress, means that universal service support mechanisms must be "explicit, rather than implicit as many support mechanisms are today."<sup>3</sup> The preferred support mechanism would involve

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<sup>3</sup> Telecommunications Act of 1996, *Joint Explanatory Statement of the Committee of Conference* at 17.

recovery of the necessary funding through a subscriber line charge ("SLC") designated for universal service support. An acceptable alternative would involve a surcharge on all providers' retail revenue. Such a surcharge, however, must be explicit and providers must be permitted to list it on subscribers' bills. In any event, the Commission must reform the current system of access charges to eliminate built-in implicit subsidy flows, including the carrier common line and residual interconnection charges, and replace them with the explicit subsidy mechanisms described above.

**D. Universal Service Support Mechanisms Must Be Competitively Neutral**

Consistent with Congress' intent to foster competition in the local exchange, Section 254 requires that universal service support mechanisms must neither favor nor disfavor one class of providers or one type of service over another. The 1996 Act requires that every provider of telecommunications services--including ILECs, CLECs, IXC's, enhanced service providers and commercial mobile radio service (CMRS) providers--must contribute to universal service support mechanisms on an "equitable and nondiscriminatory basis." *Id.* at § 254(d). In order not to distort competition, every telecommunications service provider likewise should have an equal chance to become an "eligible carrier" designated to provide universal service and receive support for providing such services. *See Id.* at § 254(e). Specifically, the 1996 Act requires that universal service support must be made available to any "eligible carrier" selected by the low-income consumer, regardless of whether the carrier is "using its own facilities or a combination of its own facilities and resale of another carrier's services . . . ." *Id.* at § 214(e). In sum, universal service support mechanisms--involving both the collection and distribution of funds--must be competitively neutral. To

provide maximum assurance that these support mechanisms function in a competitively neutral manner, a non-affiliated, non-partisan entity should preside over their administration.

## **II. UNIVERSAL SERVICE SUPPORT FOR RURAL/HIGH COST AREAS MUST BE DESIGNED SO THAT CARRIERS CAN PROVIDE SERVICES GENERALLY AVAILABLE IN URBAN AREAS AT REASONABLY COMPARABLE RATES**

The 1996 Act provides that those core services included in the definition of universal service should be made available to subscribers in rural and high cost areas at rates reasonably comparable to those paid by urban subscribers. *Id.* at § 254(b)(3). Accordingly, eligible carriers should be provided with a level of support equal to the amount necessary to enable them to provide such services at rates comparable to those prevailing in urban markets. Thus, the 1996 Act breaks with the past by requiring that subsidies be directed toward equalizing the costs of serving rural/high cost areas with those of serving urban areas and not toward reducing rural rates generally.<sup>4</sup> If services and rates in rural/high cost areas are reasonably comparable to those in urban areas, carriers serving those areas should not receive universal service support.<sup>5</sup>

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<sup>4</sup> For the purpose of determining these costs, the Commission should adopt a cost methodology that reflects a provider's forward-looking costs rather than embedded costs.

<sup>5</sup> The existing system of implicit universal service cross-subsidies has created artificially low service prices in many rural areas. Under the 1996 Act, such implicit subsidies are to be eliminated. Thus, in these areas rates should be allowed to rise to levels comparable to those paid by urban subscribers.

### **III. UNIVERSAL SERVICE SUPPORT FOR LOW-INCOME CUSTOMERS MUST BE DESIGNED SO THAT ASSISTANCE IS PROVIDED TO RESIDENTIAL SUBSCRIBERS INDIVIDUALLY IN NEED OF SUPPORT RATHER THAN TO ALL SUBSCRIBERS GENERALLY**

The level of support necessary to bring core services within subscribers' financial means should be determined on an individual case basis. The current practice of artificially lowering all residential rates provides a generalized benefit that does not necessarily make service affordable for those whom universal service is intended to help. In short, this practice is both more expensive and less effective than it should be.

Under the 1996 Act, a new regime of explicit and predictable support mechanisms must be developed to ensure that low-income individuals can afford the core services discussed above.<sup>6</sup> The best way to achieve this goal is through the existing Lifeline and Link Up programs which appropriately target individuals with demonstrated needs. Proper subsidy amounts can be determined by assessing the difference between prevailing rates for the group of core services and the rate level at which these services become affordable. By targeting subsidies toward individual residential subscribers rather than residential subscribers generally, the Commission can develop a more effective and efficient universal service support system. Otherwise, affluent citizens living in rural or high cost areas will remain unintended beneficiaries of subsidized service.

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<sup>6</sup> Again, the Commission should reject arguments to expand the definition of universal service beyond those services described above and set forth in the *Notice* at ¶ 16. There are no compelling arguments--nor is there compelling evidence--that additional services, such as toll blocking, should be included in the definition of universal service. In fact, the 1996 Act requires that access to toll services be supported--subsidized blocking of such access would be inconsistent with that mandate.

## V. CONCLUSION

For the foregoing reasons, the Commission should adopt a definition of universal service that includes no more than those core services which are necessary to provide residential users with functional use of the PSTN and the ability to access advanced services. Additionally, the Commission should develop two separate support mechanisms--one to subsidize carriers serving rural/high cost areas and another to provide direct assistance to low-income individuals. The existing system of implicit cross-subsidies must be eliminated and replaced by support mechanisms that are explicit and competitively neutral in effect. Moreover, all service providers should be required to contribute and eligible to receive support funding on an equal basis. Finally, federal and state policies must be consistent with each other and the congressional mandate of competitive neutrality.

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April 12, 1996

## **CERTIFICATE OF SERVICE**

I hereby certify that on this 12th day of April, 1996, a copy of the foregoing Comments of LCI International Telecom Corp. was served by first-class mail, postage prepaid, on the following:

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